MODEL TEST PAPER 8

INTERMEDIATE GROUP – II

PAPER – 6A : FINANCIAL MANAGEMENT & STRATEGIC MANAGEMENT

PAPER 6A: FINANCIAL MANAGEMENT

Time Allowed – 3 Hours (Total time for 6A and 6B) Maximum Marks – 50

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*
4. *Working note should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of note. However, in answers to Questions in Division A, working notes are not required.*

PART I – Case Scenario based MCQs (15 Marks)

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

1. KGF Chemicals Ltd., a prominent player in the chemical industry, faces the challenge of determining its growth trajectory and dividend policy to maximize shareholder value. With expectations of significant growth in the near term and stabilization in the long run, the company must strategically manage its resources to align with investor expectations.

   KGF Chemicals Ltd. is a leading manufacturer and supplier of specialty chemicals catering to diverse industries such as pharmaceuticals, agriculture, and manufacturing. Established with a commitment to innovation and quality, the company has garnered a strong market presence over the years.

   The company is projected to experience robust growth at a rate of 14% per annum for the next four years. Subsequently, the growth rate is expected to stabilize at the national economy's rate of 7% indefinitely. This forecast reflects both the company's expansion plans and the broader economic landscape.

   KGF Chemicals Ltd. paid a dividend of ₹ 2 per share last year (Do = 2). The management faces the crucial decision of balancing dividend payouts with reinvestment opportunities to sustain growth and meet shareholders' expectations. The dividend policy must strike a delicate balance between rewarding shareholders and retaining earnings for future investments.

   The required rate of return on equity shares is 12%, indicating investors' expected return given the company's risk profile and market conditions. Management must carefully assess investment opportunities to ensure they meet or exceed this threshold, thereby generating value for shareholders over the long term.

   In navigating the dynamic landscape of the chemical industry, KGF Chemicals Ltd. must adopt a proactive approach to managing growth and dividend policy.

By aligning strategic decisions with investor expectations and market dynamics, the company can position itself for sustainable success while maximizing shareholder value. Continual evaluation and adaptation will be essential to capitalize on growth opportunities and maintain competitiveness in the evolving marketplace.

You are required to answer the following on the basis of above information:

1. What is the expected dividend at the end of 4th Year?

   (A) ₹ 2.1097

   (B) ₹ 2.1483

   (C) ₹ 2.9631

   (D) ₹ 3.3779

2. What is the present value of Expected Dividends to be received in next four years?

   (A) ₹ 11.2202

   (B) ₹ 8.3655

   (C) ₹ 9.8423

   (D) ₹ 6.2176

3. Determine the Market Price of shares at the end of 4th Year?

   (A) ₹ 72.28

   (B) ₹ 67.55

   (C) ₹ 50.67

   (D) ₹ 77.34

4. Determine the Present Value of Market Price of shares at the end of 4th Year?

   (A) ₹ 49.18

   (B) ₹ 32.22

   (C) ₹ 45.79

   (D) ₹ 42.96

5. Calculate today's market price of the share.

   (A) ₹ 59.03

   (B) ₹ 54.33

   (C) ₹ 57.01

   (D) ₹ 57.54 **(5 x 2 = 10 Marks)**

2. A company has a cost of equity of 10% and a interest rate of 6%. The company's debt-to-equity ratio is 1.5, and the corporate tax rate is 40%. What is the company's weighted average cost of capital?

   (A) 7.20%

(B) 6.16%

(C) 7.60%

(D) 8.40% **(2 Marks)**

3. Output (units) = 3,00,000 Fixed cost = ₹ 3,50,000 Unit variable cost = ₹ 1.00 Interest expenses = ₹ 25,000
Unit selling price = ₹ 3.00 Applicable tax rate is 35% Calculate Financial Leverage.

(A) 1.11

(B) 2.40

(C) 2.67

(D) 1.07 **(2 Marks)**

4. External Commercial Borrowings can be accessed through _______

(A) only automatic route

(B) only approval route

(C) both automatic and approval route

(D) neither automatic nor approval route **(1 Mark)**

PART II – Descriptive Questions (35 Marks)

Question No. **1** is compulsory.

Attempt any **two** questions out of the remaining **three** questions.

1. (a) Alpha Limited issued 40,000 12% redeemable preference share of ₹ 100 each at a premium of ₹ 5 each, redeemable after 10 years at a premium of ₹ 10 each. The floatation cost of each share is ₹ 2. You are required to CALCULATE cost of preference share capital ignoring dividend tax.

(5 Marks)

(b) Cello Limited is considering buying a new machine which would have a useful economic life of five years, a cost of ₹ 1,25,000 and a scrap value of ₹ 30,000, with 80 per cent of the cost being payable at the start of the project and 20 per cent at the end of the first year. The machine would produce 50,000 units per annum of a new product with an estimated selling price of ₹ 3 per unit. Direct costs would be ₹ 1.75 per unit and annual fixed costs, including depreciation calculated on a straight- line basis, would be ₹ 40,000 per annum.

In the first year and the second year, special sales promotion expenditure, not included in the above costs, would be incurred, amounting to ₹ 10,000 and ₹ 15,000 respectively.

CALCULATE NPV of the project for investment appraisal, assuming that the company's cost of capital is 10 percent. **(5 Marks)**

(c) A firm's details are as under:

Sales (@100 per unit)	₹ 24,00,000
Variable Cost	50%
Fixed Cost	₹ 10,00,000

It has borrowed ₹ 10,00,000 @ 10% p.a. and its equity share capital is ₹ 10,00,000 (₹ 100 each).

Consider tax @ 50 %.

CALCULATE:

(a) Operating Leverage

(b) Financial Leverage

(c) Combined Leverage

(d) Return on Investment

(e) If the sales increases by ₹ 6,00,000; what will the new EBIT?

(5 Marks)

2. Following information is forecasted by the Puja Limited for the year ending 31st March, 2023:

	Balance as at 1st April, 2022 (₹)	**Balance as at 31st March, 2023 (₹)**
Raw Material	45,000	65,356
Work-in-progress	35,000	51,300
Finished goods	60,181	70,175
Debtors	1,12,123	1,35,000
Creditors	50,079	70,469
Annual purchases of raw material (all credit)		4,00,000
Annual cost of production		7,50,000
Annual cost of goods sold		9,15,000
Annual operating cost		9,50,000
Annual sales (all credit)		11,00,000

You may take one year as equal to 365 days.

You are required to CALCULATE:

(i) Net operating cycle period.

(ii) Number of operating cycles in the year.

(iii) Amount of working capital requirement using operating cycles.

(10 Marks)

3. (a) Shahji Steel Limited requires ₹ 25,00,000 for a new plant. This plant is expected to yield earnings before interest and taxes of ₹ 5,00,000. While deciding about the financial plan, the company considers the objective of maximizing earnings per share. It has three alternatives to finance the project - by raising debt of ₹ 2,50,000 or ₹ 10,00,000 or ₹ 15,00,000 and the balance, in each case, by issuing equity shares. The company's share is currently selling at ₹ 150 but is expected to decline to ₹ 125 in case the funds are borrowed in excess of ₹ 10,00,000. The funds can be borrowed at the rate of 10 percent upto ₹ 2,50,000, at 15 percent over ₹ 2,50,000 and upto ₹ 10,00,000 and at 20 percent over ₹ 10,00,000. The tax rate applicable to the company is 50 percent. ANALYSE which form of financing should the company choose? **(6 Marks)**

(b) Following information are available for Navya Ltd. along with various ratios relevant to the particular industry it belongs to. APPRAISE your comments on strength and weakness of Navya Ltd. comparing its ratios with the given industry norms.

Navya Ltd.

Balance Sheet as at 31.3.2023

Liabilities	**(₹)**	**Assets**	**(₹)**
Equity Share Capital	48,00,000	Fixed Assets	24,20,000
10% Debentures	9,20,000	Cash	8,80,000
Sundry Creditors	6,60,000	Sundry debtors	11,00,000
Bills Payable	8,80,000	Stock	33,00,000
Other current Liabilities	4,40,000		-
Total	77,00,000	Total	77,00,000

Statement of Profitability

For the year ending 31.3.2023

Particulars	**(₹)**	**(₹)**
Sales		1,10,00,000
Less: Cost of goods sold:		
Material	41,80,000	
Wages	26,40,000	
Factory Overhead	12,98,000	81,18,000
Gross Profit		28,82,000
Less: Selling and Distribution Cost	11,00,000	
Administrative Cost	12,28,000	23,28,000
Earnings before Interest and Taxes		5,54,000
Less: Interest Charges		92,000
Earning before Tax		4,62,000
Less: Taxes @ 50%		2,31,000
Net Profit (PAT)		2,31,000

Industry Norms

Ratios	Norm
Current Ratio	2.5
Receivables Turnover Ratio	8.0
Inventory Turnover Ratio (based on Sales)	9.0
Total Assets Turnover Ratio	2.0
Net Profit Ratio	3.5%
Return on Total Assets (on EBIT)	7.0%
Return on Net worth (Based on Net profit)	10.5%
Total Debt/Total Assets	60.0%

(4 Marks)

4. (a) WRITE short notes on the following:

Inter relationship between investment, financing and dividend decisions.

(4 Marks)

(b) DISCUSS the risk-return considerations in financing of current assets.

(4 Marks)

(c) WHAT is 'Optimum Capital Structure'? **(2 Marks)**

OR

(c) DISCUSS the dividend-price approach to estimate cost of equity capital.

(2 Marks)

MODEL TEST PAPER 8

PAPER 6B: STRATEGIC MANAGEMENT

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises case scenario based multiple choice questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case scenario based MCQs (15 Marks)

Question 1. (A) (Compulsory)

1. (A) Once upon a time in the land of sun, sand, and vibrant cultures, there existed a company named "MuseoGoa" - a company that managed museums in the beautiful state of Goa. MuseoGoa had a vision to celebrate the rich history and culture of Goa, but their journey was not without its fair share of challenges.

MuseoGoa had chosen a picturesque location in a quaint village to build their first museum. However, this initial enthusiasm was met with an uproar from the local communities. The villagers were concerned about the impact on their way of life and traditions. They worried that the influx of tourists might disrupt their peaceful existence.

To address this challenge, MuseoGoa applied Mendelow's matrix, identifying the local communities as key stakeholders. They decided to engage in open dialogues, understanding and respecting the villagers' concerns. MuseoGoa initiated community-building activities, such as involving locals in museum operations, supporting local artisans, and organizing cultural events that showcased the village's heritage. Slowly but steadily, the company transformed from being perceived as a threat to a valued partner within the community.

While MuseoGoa had successfully resolved their initial issues with the local community, they faced another challenge. Their location, although idyllic, was a bit off the beaten path. Tourists typically preferred the bustling beaches closer to the city, and this posed a real challenge. MuseoGoa decided to employ a pricing strategy. They priced their tickets affordably, significantly cheaper than the city's attractions. This strategy attracted budget-conscious tourists who were looking for unique experiences in Goa without burning a hole in their pockets. As word spread about the cultural gem tucked away in the village, visitors started flocking in, drawn not just by the museum's charm but also the economical ticket prices.

In the age of social media, MuseoGoa knew that word-of-mouth was no longer limited to whispers. They tapped into the power of social media to promote their unique museum experience. MuseoGoa ran interactive campaigns, encouraging visitors to share their experiences on various platforms. One particular Instagram post featuring a vibrant Goan mural in the museum went viral. This was the turning point. The picture-perfect aesthetics of the museum attracted influencers, bloggers, and travel enthusiasts, making MuseoGoa a social media sensation. Visitors came pouring in, not just from India but from across the globe, eager to capture their own moments at the "Instagrammable Museum of Goa."

With success came ambition. MuseoGoa decided to expand its footprint beyond Goa. To guide this expansion, they conducted a strategy audit and trend analysis. They identified emerging cultural and tourism trends and found potential markets in Pune and Trivandrum.

In Pune, MuseoGoa curated a special exhibition that celebrated the fusion of Goan and Maharashtrian cultures. They strategically partnered with local influencers and travel agencies to market the new experience. The expansion into Pune was met with resounding success.

For Trivandrum, MuseoGoa recognized the importance of local traditions and the distinct flavor of Kerala. They tailored their offerings to harmonize with the regional culture. MuseoGoa became the gateway for tourists to explore Kerala's rich heritage, with the museum acting as a bridge between Goa and Kerala's cultural tapestry.

MuseoGoa's journey from initial uproar to expansion was a testament to their commitment to community building, strategic pricing, social media savvy, and a keen eye for trends. The company continued to flourish, celebrating the diverse cultural tapestry of India and making history come alive in every location they touched.

Based on the above Case Scenario, answer the Multiple Choice Questions.

(i) Which strategic management concept did MuseoGoa use to address the initial concerns of the local community?

(a) SWOT analysis

(b) Mendelow's matrix

(c) Cost leadership strategy

(d) Porter's Five Forces model **(2 Marks)**

(ii) MuseoGoa's idyllic location in a quaint village posed a challenge as tourists preferred beaches closer to the city. To attract visitors, MuseoGoa priced their tickets affordably, cheaper than city attractions, drawing budget-conscious tourists looking for unique experiences. What business strategy did MuseoGoa employ to attract more tourists?

(a) Cost leadership strategy

(b) Differentiation strategy

(c) Focus strategy

(d) Diversification strategy **(2 Marks)**

(iii) How did MuseoGoa approach its expansion into new markets such as Pune and Trivandrum?

(a) Outsourcing strategy

(b) Franchising strategy

(c) Product diversification strategy

(d) Market development strategy **(2 Marks)**

(iv) Which element of the 7S McKinsey model is demonstrated by MuseoGoa's strategic use of social media and pricing strategies to attract visitors?

(a) Style

(b) Strategy

(c) Shared Values

(d) Skills **(2 Marks)**

(v) What played a crucial role in MuseoGoa's success in Pune and Trivandrum?

(a) Strategic partnerships

(b) Aggressive advertising

(c) Product differentiation

(d) Vertical integration **(2 Marks)**

(B) Compulsory Application Based Independent MCQs

(i) Jaago Lights, a successful brand from Jalandhar, aimed to enter the Middle East market by teaming up with major industry players. They needed to reorganize internal operations and refine product designs, facing pressure to expand quickly and turbulence in existing operations. What is the primary limitation of strategic management highlighted in the business case?

(a) Lack of senior management support

(b) Time-consuming and complex nature

(c) Inability to adapt to market changes

(d) Excessive focus on short-term goals **(2 Marks)**

(ii) A traditional desi ghee company modernized its production and introduced pro-biotic desi ghee, facing initial market doubts. Aggressive marketing campaigns highlighted its benefits, gaining acceptance. During which stage of the product life cycle did the desi ghee company face doubts but gained acceptance through aggressive marketing campaigns?

(a) Introduction stage

(b) Growth stage

(c) Maturity stage

(d) Decline stage **(2 Marks)**

(iii) Alpha Corp is undergoing a shift to foster a culture that encourages innovative thinking and team collaboration. To achieve this, the company is focusing on how leaders interact with their teams and set examples for behavior, aiming to align leadership practices with desired cultural outcomes. Which aspect of AlphaCorp is being adjusted to foster a culture of innovation and collaboration?

(a) Structure

(b) Systems

(c) Skills

(d) Style **(1 Mark)**

PART II – Descriptive Questions (35 Marks)

*Question No. **1** is compulsory.*

*Attempt any **two** questions out of the remaining **three** questions.*

1. (a) Tech Innovators Inc., a rapidly expanding technology company, aims to lead in artificial intelligence (AI) and machine learning (ML). With recent growth, the company is evaluating which organizational structure will best support its vision for innovation and leadership in AI technologies. They are considering three options: the Functional and Divisional Relationship for specialization, the Horizontal Relationship for flat, collaborative management, and the Matrix Relationship for cross-functional teams. Which of these relationships—Functional and Divisional, Horizontal, or Matrix—will most effectively achieve Tech Innovators Inc.'s strategic goals, and why? **(5 Marks)**

   (b) Rajiv Arya owns an electrical appliance company specializing in the manufacture of domestic vacuum cleaners. The market is competitive, with four other manufacturers offering similar products and achieving comparable sales volumes. Additionally, these rival firms hold several patents related to the vacuum cleaner technology. The supplier base for raw materials is extensive, with multiple suppliers available. Identify and explain the significant forces from Porter's Five Forces framework that are relevant to Rajiv Arya's company. **(5 Marks)**

   (c) A Mumbai-based conglomerate, PQR Ltd., has announced a major restructuring of its business operations. The company has decided to split its business into four separate units: Manufacturing, Retail, Services, and Technology. Each unit will operate as a separate business, with delegated responsibility for day-to-day operations and strategy to the respective unit managers. Identify the organization structure that PQR Ltd. has planned to implement. Discuss any four attributes and the benefits the firm may derive by using this organization structure. **(5 Marks)**

2. (a) Strategic management helps an organization to work through changes in the environment to gain competitive advantage. In light of statement discuss its benefits. **(5 Marks)**

(b) A company has recently launched a new product in the market. Initially, it faced slow sales growth, limited markets, and high prices. However, over time, the demand for the product expanded rapidly, prices fell, and competition increased. Identify the stages of the product life cycle (PLC) that the company went through. **(5 Marks)**

3. (a) What do you understand by Strategic Alliance? Discuss its advantages. **(5 Marks)**

   (b) Why Strategic Performance Measures are essential for organizations? **(5 Marks)**

4. (a) Distinguish between Concentric Diversification and Conglomerate Diversification. **(5 Marks)**

   (b) What are channels? Why is channel analysis important? Explain the different types of channels?

OR

How can Mendelow's Matrix be used to analyze and manage the stakeholders effectively? **(5 Marks)**